

Message Text

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ACTION ARA-14

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TAGS:ECON, EINV, EFIN, CI
SUBJECT: NEW U.S. INVESTMENT IN CHILE; GOODYEAR BUYS INSA

1. FINAL CONSUMPTION OF THE ON-AGAIN-OFF-AGAIN SALE OF THE STATE-OWNED TIRE COMPANY (INSA - INDUSTRIA NACIONAL DE NEUMATICOS) TO THE GOODYEAR TIRE AND RUBBER CO., WAS ANNOUNCED MONDAY IN A PRESS CONFERENCE HELD BY GOODYEAR'S LOCAL GENERAL MANAGER, JACK CARTER. FANFARE INCLUDED FULL DOUBLE-PAGE ADS IN EL MERCUIRO AND OTHER METROPOLITAN DAILY NEWSPAPERS.

2. GOODYEAR HAS MADE A TOTAL COMMITMENT OF \$45.8 MILLION, PAYING \$34.2 MILLION FOR INSA'S PHYSICAL ASSETS AND ASSUMING \$11.6 MILLION IN OUTSTANDING DEBT OBLIGATIONS. INSA'S FINANCIALLY PRECARIOUS SITUATION DID NOT DISCOURAGE GOODYEAR FROM ACQUIRING A FIRM WHICH TRADITIONALLY HAS HAD 70 PERCENT OF THE CHILEAN TIRE MARKET. FIRESTONE, WHICH ALSO PURCHASED AN EXISTING PLANT IN 1975, IS CHILE'S ONLY OTHER PRODUCER. FOLLOWING EXXON'S RECENT COPPER MINE PURCHASE FOR \$110 MILLION, GOODYEAR NOW BECOMES THE SECOND LARGEST U.S. INVESTOR IN CHILE, JUST AHEAD OF DOW CHEMICAL'S \$45.0 MILLION INVESTMENT AND THAT OF ESS PETROLEUM VALUED AT \$38 MILLION.

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3. ASSOCIATE WITH, BUT DISTINT FROM THIS PURCHASE, IS GOODYEAR'S ALREADY APPROVED APPLICATION WITH THE FOREIGN INVESTMENT COMMITTEE FOR AN INCREASE IN THE CAPITAL INVESTMENT OF INSA. ACCORDING TO GOODYEAR EXECUTIVES, NOT LESS THAN TWO MILLION DOLLARS WILL BE ACTUALLY INVESTED THIS YEAR FOR MUCH NEEDED PLANT MODERNIZATION.

4. SOME BACKGROUND. ONCE A JOINT VENTURE WITH GENERAL TIRE AS

THE AMERICAN PARTNER, INSA WAS FACED WITH BANKRUPTCY EARLY IN 1976, AND FORCED INTO RECEIVERSHIP. THE GOC THEN TOOK OVER THE ENTIRE COMPANY. OPERATIONS CONTINUED UNDER STATE DEVELOPMENT CORPORATION (CORFO) MANAGEMENT AND CONTINUED TECHICAL ADVIE FROM GENERAL WHILE AN ATTEMPT TO AUCTION IT OFF FAILED FOR LACK OF BIDDERS. CORFO THEN BEGAN DEALING DIRECTLY WITH GOODYEAR. NEGOTIATIONS FREQUENTLY FALTERED OVER LABOR CONCERNS, A STOCKHOLDERS' SUIT, GOC TARIFF POLICY, AND GOODYEAR'S MISGIVINGS ABOUT MANAGING AN ENTERPRISE UNDER THE INFLATIONARY AND DEPRESSED ECONOMIC CONDITIONS OF 1976.

5. DURING THE NEGOTIATIONS IT WAS REVEALED THAT GOODYEAR INTENDED AN QUOTE INTERNAL REORGANIZATION UNQUOTE WHICH WOULD RESULT IN THE LAYOFF OF 500 OF 2,000 EMPLOYEES. MEANWHILE, SOME 11 PERCENT OF THE FORMER, CHILEAN SOCKHOLDERS FILED SUIT CLAIMING INADEQUATE AND UNFAIR COMPENSATION. FINALLY, GOODYEAR FACING THE PROSPECTIVE STIFF IMPORT COMPETITION BALKED AT THE GOVERNMENT'S POLICY OF A PRECIPITUOUSLY DECLINING GENREAL SCHEDULE OF TARIFFS (WEIGHTED AVERAGE CURRENTLY 23 PERCENT).

6. THESE COMPLICATIONS APPEAR TO HAVE BEEN RESOLVED. WITH INVLTION UNDER CONTRO), AND AGREGATE DEMAND AND GROWTH ON THE UPSWING, GOODYEAR EXECUTIVES FORESEE A HAPPIER FUTURE. THE LABOR PROBLEM HAS BEEN SMOOTHED OVER. IN ADDITION TO LEGALLY REQUIRED SEVERANCE PAY, GOODYEAR HAS AGREED TO OFFER RE-TRAINING PROGRAMS AND HAS EXTENDED RE-EMPLOYMENT RIGHTS TO LAID-OFF WORKERS
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CONTINGENT UPON PRODUCTION INCREEASES AND/OR PRODUCT LINE EXPANSION. AS FOR THE STOCKHOLDERS, GOODYEAR ARGUEES THAT THEIR CASE IS AGAINST THE FORMER OWNER OF RECORD -- CORFO, A GOVERNMENT AGENCY. IN THAT THE GOC HAS APPROVED THE SALE AND TRANSFER OF THE UNENCUMBERED

EQUITY, IT AGREES THAT GOODYEAR IS NO LONGER A PARTY TO THE STOCKHOLDERS' SUIT. AND OODYEAR HAS APPARENTLY DECIDED IT CAN SURVIVE WITH MINIMAL TARIFFPROTECTION. A COMPANY SPOKESMAN WAS QUOTED IN THE PRESS AHS HAVING SAID THAT RECENT REASIBILITY STUDIES SHOW THAT GOODYEAR'S PRODUCTS WILL BE PRICE COMPETITIVE WITH IMPORTS EVEN WHEN TARIFFS REACH 10 PERCENT BY MID 1979.

7. COMMENT: WHILE GOODYEAR7S PURCHASE IS A SIGNIFICANT INVESTMENT FROM THE FIRM'S POINT OF VIEW, FROM AN ECONOMIC STANDPOINT IT IS NOT A NEW CONTRIBUTION TO CHILE'S PRODUCTIVE CAPACITY. LIKE EXXON'S RECENT INVESTMENT, IT IS ACTUALLY A TRANSFER OF OWNERSHIP; AN EXCHANGE OF REAL FOR FINANCIAL ASSETS. IT IS, OF COURSE, A POSITIVE ENTRY OF \$45 MILLION IN THE BALANCE OF PAYMENTS.

8. MORE INTERESTING IS THE FACT THAT GOODYEAR NOW BELIEVES THAT IT CAN PROFITABLY OPERATE DESPITE A 10 PERCENT UNITY TARIFF.

TWO WEEKS AGO THE EXECUTIVE SECRETARY OF THE FOREIGN INVESTMENT COMMITTEE TOLD AND EMBASSY OFFICER THAT THE NEGOTIATIONS HAD AT ONE POINT COMPLETELY FOUNDERED ON THIS ISSUE. MEANWHILE, MANY LOCAL INDUSTRIALISTS BITTERLY COMPLAIN, SOME PREDICTING DISASTER FOR LACK OF PROTECTION.

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